

GMG
COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2011

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GMG COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Linda Havelka	President	2011
Jim Fleming	Vice President	2011
Merle Appelgate		2013
Rick Landt	(Resigned November 2010)	
Kathy Beane		2013
Kevin Bovenmyer		2013
John Epenscheid		2013
Doug Dieleman	(Appointed December 2010)	2011

School Officials

Michael Ashton	Superintendent
Deb Stahl	District Secretary/ Treasurer

BRUCE D. FRINK

Certified Public Accountant

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

Independent Auditor's Report

To the Board of Education of
GMG Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of GMG Community School District, Garwin, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

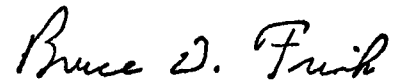
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund of GMG Community School District at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 10, 2012 on our consideration of GMG Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 12 and 36 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise GMG Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2010 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The financial statements for the six years ended June 30, 2007 (which are not presented herein) were audited by other auditors, in accordance with the standards referred to in the second paragraph of this report, who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



BRUCE D. FRINK
Certified Public Accountant

February 10, 2012

GMG COMMUNITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

GMG Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,279,210 in fiscal 2010 to \$4,681,821 in fiscal 2011, (a nine percent increase) while General Fund expenditures increased from \$4,388,700 in fiscal 2010 to \$4,753,189 in fiscal 2011 (an eight percent increase).
- The increase in General Fund revenues was primarily attributable to increases in tuition and state revenues. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. The General Fund balance decreased due to inadequate allowable growth.
- The statewide sales, services and use tax continues to be collected by the District. These monies are being used for improvements to district facilities and debt reduction. This tax allows the District to update its facilities for an expanding enrollment without raising property taxes.
- The District completed the construction project at the high school including an addition to and remodeling of existing facilities. It was financed with a combination of general obligation and sales tax revenue bonds.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of GMG Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report GMG Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which GMG Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the Student Activity and Agency Funds as well as a multiyear comparison of revenues and expenses.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
GMG Community School District Annual Financial Report

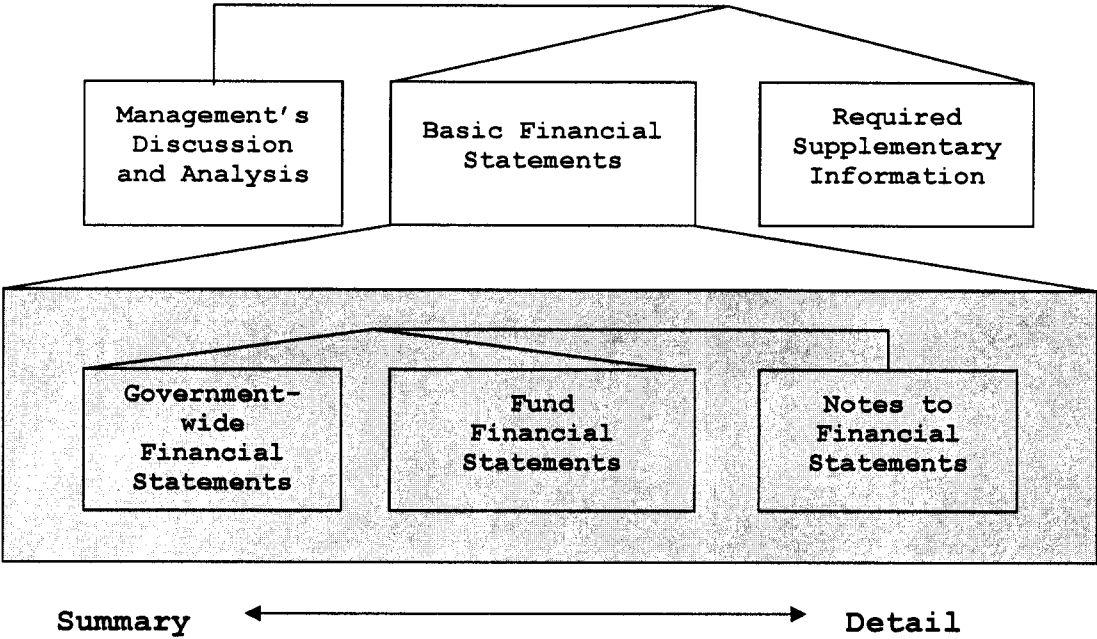


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Fund	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activity the District operates similar to private businesses: food services	Instances in which the district administers resources on behalf of someone else, a farm donated to the District
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long- term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The District has elected to present all funds as "major" for clarity of presentation.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Funds.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Fund, one type of proprietary fund, is the same as its business type activities but provides more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others.

- *Agency Funds* - These are funds through which the District administers and accounts for funds from the Kienzle Farm.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for agency funds include a statement of fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

<p align="center">Figure A-3 Condensed Statement of Net Assets (Expressed in Thousands)</p>							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-2011
Current assets	\$ 4,022	4,643	23	32	4,045	4,675	-15.57%
Capital assets	8,207	7,446	26	33	8,233	7,479	9.16%
Total assets	<u>12,229</u>	<u>12,089</u>	<u>49</u>	<u>65</u>	<u>12,278</u>	<u>12,154</u>	<u>1.01%</u>
Current liabilities	2,337	2,476	11	14	2,348	2,490	-6.05%
Non-current liabilities	6,576	6,674	-	-	6,576	6,674	-1.49%
Total liabilities	<u>8,913</u>	<u>9,150</u>	<u>11</u>	<u>14</u>	<u>8,924</u>	<u>9,164</u>	<u>-2.69%</u>
Net Assets							
Invested in capital assets, net of related debt	1,852	796	26	33	1,878	829	55.86%
Restricted	848	1,235	-	-	848	1,235	-45.64%
Unrestricted	<u>616</u>	<u>908</u>	<u>12</u>	<u>18</u>	<u>628</u>	<u>926</u>	<u>-47.45%</u>
Total net assets	<u>\$ 3,316</u>	<u>2,939</u>	<u>38</u>	<u>51</u>	<u>3,354</u>	<u>2,990</u>	<u>10.85%</u>

Combined net assets increased primarily as a result of the purchase of capital assets exceeding the depreciation. The District has taken advantage of the statewide sales, services and use tax to expand its facilities in recent years. Unrestricted assets fell due to inadequate allowable growth. Restricted assets decreased primarily as a result of being used to purchase capital assets.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-4 Changes in Net Assets (Expressed in Thousands)							
Governmental Activities		Business Type Activities		Total District		Total Change	
2011	2010	2011	2010	2011	2010	2010-2011	
Revenues:							
Program revenues:							
Charges for service and sales	\$ 1,108	978	119	132	1,227	1,110	10.54%
Operating grants, contributions and restricted interest	903	1,009	114	107	1,017	1,116	-8.87%
General revenues:							
Property tax	1,674	1,630	-	-	1,674	1,630	2.70%
Income surtax	157	152	-	-	157	152	3.29%
Statewide sales, services and use tax	237	204	-	-	237	204	16.18%
Unrestricted state grants	1,286	1,053	-	-	1,286	1,053	22.13%
Unrestricted investment earnings	10	15	-	-	10	15	-33.33%
Other	177	48	-	-	177	48	268.75%
Total revenues	<u>5,552</u>	<u>5,089</u>	<u>233</u>	<u>239</u>	<u>5,785</u>	<u>5,328</u>	<u>8.58%</u>
Program expenses:							
Governmental activities:							
Instruction	3,264	3,247	-	-	3,264	3,247	0.52%
Support services	1,164	1,238	-	-	1,164	1,238	-5.98%
Non-instructional programs	-	-	246	261	246	261	-5.75%
Other expenses	746	887	-	-	746	887	-15.90%
Total expenses	<u>5,174</u>	<u>5,372</u>	<u>246</u>	<u>261</u>	<u>5,420</u>	<u>5,633</u>	<u>-3.78%</u>
Change in net assets	<u>\$ 378</u>	<u>(283)</u>	<u>(13)</u>	<u>(22)</u>	<u>365</u>	<u>(305)</u>	<u>-219.67%</u>

Property tax and unrestricted state grants account for 51% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 86% of the total expenses. The percentage of total expenses spent on instruction and support services increased 6% as the District continues to focus on direct student needs.

Governmental Activities

Revenues for governmental activities were \$5,551,301 and expenses were \$5,173,544 for the year ended June 30, 2011.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, and other expenses, for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-5						
Total and Net Cost of Governmental Activities						
(Expressed in Thousands)						
	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010-2011	2011	2010	Change 2010-2011
Instruction	\$ 3,264	3,247	0.52%	1,417	1,427	-0.70%
Support services	1,164	1,238	-5.98%	1,155	1,226	-5.79%
Other expenses	746	887	-15.90%	591	732	-19.26%
Totals	\$ 5,174	5,372	-3.69%	3,163	3,385	-6.56%

For the year ended June 30, 2011:

- The cost financed by users of the District's programs was \$1,108,131.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$609,213.
- The net cost of governmental activities was financed with \$1,673,407 in property tax and \$1,286,401 in state foundation aid.

Business-Type Activities

Revenues for business type activities during the year ended June 30, 2011 were \$232,658 and expenses totaled \$246,172. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted, GMG Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,552,119 a large decrease from last year's ending fund balances of \$2,051,941. This is almost entirely due to the spending of funds for new construction and remodeling at the high school. This money was from FY09 bond issues. FY12 should show a leveling out as the building project has been completed.

Governmental Fund Highlights

- The District's General Fund balance decreased as a result of decreased state source revenues. Allowable growth of 2% or less is inadequate to keep up with increasing enrollment requirements.
- The District continues to expand its facilities and equipment through the use of statewide sales, services and use tax revenues.
- The District's open enrollment in has continued to increase. This will allow the District to continue to grow.

Proprietary Fund Highlights

The School Nutrition fund decreased during the year by 27%. The District is looking for means of reversing this trend.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 36 and 37.

Legal Budgetary Highlights

The District's receipts were over \$200,000 greater than budgeted receipts, a variance of 4%. The variance resulted from the District receiving more tuition revenues than originally anticipated.

Total expenditures were less than budgeted in total, due primarily to the District's budget for the General Fund. The District then manages or controls spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. The District exceeded the budgeted amount in the support services and other expenditures functions. One reason for this was the purchase of almost \$200,000 in laptop computers late in the year. It did not exceed its General Fund unspent authorized budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had invested \$8.2 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$331,068.

The original cost of the District's capital assets was \$12,617,545. Governmental funds account for \$12,484,360, with the remainder of \$133,185 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Capital Assets, net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-2011
Land	\$ 55	55	-	-	55	55	0.00%
Construction in progress	-	3,468	-	-	-	3,468	-100.00%
Buildings	7,612	3,607	-	-	7,612	3,607	111.03%
Furniture and equipment	541	316	26	33	567	349	62.46%
Totals	\$ 8,208	7,446	26	33	8,234	7,479	10.09%

Long-Term Debt

At June 30, 2011, the District had \$6,365,000 in general obligation and revenue bonds. Additional information about the District's long-term debt is presented in Note 4 to the financial statements.

In fiscal year 2011, the District borrowed almost \$200,000 for the purchase of laptop computers.

In fiscal year 2010, the District borrowed \$300,000 from the USDA to assist in completing the construction of an addition to the existing high school.

Figure A-7
Outstanding Long-Term Obligations
(Expressed in Thousands)

	Total District		Total Change
	June 30,		June 30,
	2011	2010	2010-2011
General obligation bonds	\$ 4,500	4,710	-4.46%
Revenue bonds	1,600	1,655	-3.32%
USDA Rural Economic Development Loan	255	285	100.00%
Capital lease payable	173	-	
Other postemployment benefits	48	24	100.00%
Total	\$ 6,576	6,674	-1.47%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Statewide sales, services and use tax is being used for various building/remodeling projects and property tax relief throughout the District.
- The District has experienced increasing open enrollment in over the past several years. This allows the District to provide programs without increasing property taxes.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired).
- Health insurance continues to be a very costly item to the District. Even though concessions have been made by employees in regard to deductibles and coinsurance, other solutions need to be found. The skyrocketing cost of health care and the insurance to cover the cost will soon be unattainable by many.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deb Stahl, District Secretary, GMG Community School District, 306 Park Street, Garwin, IA 50632.

Basic Financial Statements

GMG COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2011

		Business Type Activities	
	Governmental Activities	School Nutrition	Total
Assets			
Cash and pooled investments	\$ 1,786,595	15,123	1,801,718
Receivables:			
Property tax:			
Current year	21,093	-	21,093
Succeeding year	1,822,234	-	1,822,234
Income surtax - succeeding year	154,521	-	154,521
Due from other governments	237,683	-	237,683
Other receivables	-	-	-
Inventories	-	7,833	7,833
Capital assets, net of accumulated depreciation	8,207,248	25,649	8,232,897
Total assets	\$ 12,229,374	48,605	12,277,979
Liabilities			
Accounts payable	\$ 42,585	-	42,585
Accrued payroll and benefits	450,667	10,939	461,606
Accrued interest payable	20,434	-	20,434
Unearned revenues	-	321	321
Deferred revenue:			
Succeeding year property tax	1,822,234	-	1,822,234
Long term liabilities:			
Portion due within one year:			
Capital lease payable	49,498	-	49,498
USDA Rural Economic Development Loan	30,000	-	30,000
General obligation bonds	215,000	-	215,000
Revenue bonds	60,000	-	60,000
Portion due after one year:			
Net OPEB liability	48,381	-	48,381
Capital lease payable	123,742	-	123,742
USDA Rural Economic Development Loan	225,000	-	225,000
General obligation bonds	4,285,000	-	4,285,000
Revenue bonds	1,540,000	-	1,540,000
Total liabilities	8,912,541	11,260	8,923,801
Net Assets			
Invested in capital assets, net of related debt	1,852,248	25,649	1,877,897
Restricted for:			
Categorical funding	12,908	-	12,908
Student activities	56,324	-	56,324
Management levy	104,494	-	104,494
School infrastructure	665,455	-	665,455
Debt service	9,220	-	9,220
Unrestricted	616,184	11,696	627,880
Total net assets	\$ 3,316,833	37,345	3,354,178

See notes to financial statements.

GMG COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Instruction	\$ 3,263,546	1,108,131	737,875	(1,417,540)	-	(1,417,540)
Support services:						
Student services	43,976	-	-	(43,976)	-	(43,976)
Instructional staff services	181,067	-	-	(181,067)	-	(181,067)
Administration services	526,994	-	-	(526,994)	-	(526,994)
Operation and maintenance of plant services	232,117	-	9,049	(223,068)	-	(223,068)
Transportation services	179,635	-	-	(179,635)	-	(179,635)
	1,163,789	-	9,049	(1,154,740)	-	(1,154,740)
Other expenditures:						
Facilities acquisition	6,827	-	776	(6,051)	-	(6,051)
Interest on long-term debt	260,782	-	926	(259,856)	-	(259,856)
Service fees on long-term debt	1,525	-	-	(1,525)	-	(1,525)
AEA flowthrough	153,840	-	153,840	-	-	-
Depreciation (unallocated) *	323,235	-	-	(323,235)	-	(323,235)
	746,209	-	155,542	(590,667)	-	(590,667)
Total governmental activities	5,173,544	1,108,131	902,466	(3,162,947)	-	(3,162,947)

GMG COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Business type activities:						
Non-instructional programs:						
Nutrition services	246,172	118,474	114,184	-	(13,514)	(13,514)
Total	<u>\$ 5,419,716</u>	<u>1,226,605</u>	<u>1,016,650</u>	<u>(3,162,947)</u>	<u>(13,514)</u>	<u>(3,176,461)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 1,186,536	-	1,186,536
Management Fund				95,106	-	95,106
Debt service				391,765	-	391,765
Income surtax				157,308	-	157,308
Statewide sales, services and use tax				236,787	-	236,787
Unrestricted state grants				1,286,401	-	1,286,401
Unrestricted investment earnings				9,816	-	9,816
Other				176,985	-	176,985
Total general revenues				<u>3,540,704</u>	<u>-</u>	<u>3,540,704</u>
Change in net assets				377,757	(13,514)	364,243
Net assets beginning of year				2,939,076	50,859	2,989,935
Net assets end of year				<u>\$ 3,316,833</u>	<u>37,345</u>	<u>3,354,178</u>

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

GMG COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2011

Assets

Cash and pooled investments
Receivables:
Property tax:
 Current year
 Succeeding year
Income surtax - succeeding year
Other receivables
Due from other governments

	General	Student Activity	Management Levy	Capital Projects Statewide Sales, Services and Use Tax Levy	Debt Service	Total
	\$ 1,029,842	56,324	103,295	592,852	4,282	1,786,595
	14,956	-	1,199	-	4,938	21,093
	1,383,731	-	50,000	-	388,503	1,822,234
	154,521	-	-	-	-	154,521
	-	-	-	-	-	-
	165,080	-	-	72,603	-	237,683
Total assets	<u>\$ 2,748,130</u>	<u>56,324</u>	<u>154,494</u>	<u>665,455</u>	<u>397,723</u>	<u>4,022,126</u>

GMG COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2011

Liabilities and Fund Balances

Liabilities:

Accounts payable
Accrued payroll and benefits
Deferred revenue:
Succeeding year property tax
Succeeding year income surtax
Total liabilities

Fund balances:

Reserved for:
Categorical funding
Student activities
Management levy
School infrastructure
Debt service
Unassigned
Total fund balances

Total liabilities and fund balances

	General	Student Activity	Management Levy	Capital Projects Statewide Sales, Services and Use Tax Levy	Debt Service	Total
\$ 42,585	-	-	-	-	-	42,585
450,667	-	-	-	-	-	450,667
1,383,731	-	50,000	-	-	388,503	1,822,234
154,521	-	-	-	-	-	154,521
2,031,504	-	50,000	-	-	388,503	2,470,007
12,908	-	-	-	-	-	12,908
-	56,324	-	-	-	-	56,324
-	-	104,494	-	-	-	104,494
-	-	-	-	665,455	-	665,455
-	-	-	-	-	9,220	9,220
703,718	-	-	-	-	-	703,718
716,626	56,324	104,494	665,455	9,220	-	1,552,119
\$ 2,748,130	56,324	154,494	665,455	397,723	-	4,022,126

GMG COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2011

Total fund balances of governmental funds (Exhibit C)	\$ 1,552,119
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Income surtax receivable at June 30, 2011 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	154,521
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	8,207,248
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	(20,434)
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds:

Capital lease payable	\$ (173,240)	
Other postemployment benefits	(48,381)	
USDA Rural Economic Development Loan	(255,000)	
General obligation bonds	(4,500,000)	
Revenue bonds	<u>(1,600,000)</u>	<u>(6,576,621)</u>

Net assets of governmental activities (Exhibit A)	<u>\$ 3,316,833</u>
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GMG COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2011

	General	Student Activity	Management Levy	Capital Projects			Total
				Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Debt Service Projects	
Revenues:							
Local sources:							
Local tax	\$ 1,325,999	-	95,106	236,787	-	391,765	2,049,657
Tuition	1,108,131	-	-	-	-	-	1,108,131
Other	198,237	117,226	9,047	776	2	926	326,214
State sources	1,824,322	-	-	-	-	-	1,824,322
Federal sources	225,132	-	-	-	-	-	225,132
Total revenues	4,681,821	117,226	104,153	237,563	2	392,691	5,533,456
Expenditures:							
Instruction	3,112,263	102,131	24,811	-	-	-	3,239,205
Support services:							
Student services	43,976	-	-	-	-	-	43,976
Instructional staff services	181,067	-	-	-	-	-	181,067
Administration services	508,386	-	18,608	-	-	-	526,994
Operation and maintenance of plant services	507,838	-	20,193	-	-	-	528,031
Transportation services	245,819	-	9,842	-	1,322	-	256,983
	1,487,086	-	48,643	-	1,322	-	1,537,051

GMG COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2011

	General	Student Activity	Management Levy	Capital Projects			Debt Service	Total
				Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy			
Other expenditures:								
Facilities acquisition and construction services	-	-	-	718,157	228	-	-	718,385
Principal on long-term debt	-	-	-	-	-	319,749	-	319,749
Interest on long-term debt	-	-	-	-	-	261,512	-	261,512
Services on long-term debt	-	-	-	-	-	1,525	-	1,525
AEA flowthrough	153,840	-	-	-	-	-	-	153,840
	153,840	-	-	718,157	228	582,786	-	1,455,011
Total expenditures	4,753,189	102,131	73,454	718,157	1,550	582,786	-	6,231,267
Excess (deficiency) of revenues over (under) expenditures	(71,368)	15,095	30,699	(480,594)	(1,548)	(190,095)	-	(697,811)
Other financing sources:								
Proceeds from issuance of loans	-	-	-	197,989	-	-	-	197,989
Operating transfers in	-	-	-	-	-	192,508	-	192,508
Operating transfers out	-	-	-	(192,508)	-	-	-	(192,508)
Total other financing sources	-	-	-	5,481	-	192,508	-	197,989
Net change in fund balances	(71,368)	15,095	30,699	(475,113)	(1,548)	2,413	-	(499,822)
Fund balances beginning of year	787,994	41,229	73,795	1,140,568	1,548	6,807	-	2,051,941
Fund balances end of year	\$ 716,626	56,324	104,494	665,455	-	9,220	-	1,552,119

See notes to financial statements.

GMG COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2011

Net change in fund balances - total governmental funds (Exhibit E) \$ (499,822)

**Amounts reported for governmental activities in the Statement of
Activities are different because:**

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities
This represents the change from the prior fiscal year

17,845

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 1,084,820	
Depreciation expense	<u>(323,235)</u>	761,585

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

Issued	(197,989)	
Repaid	<u>319,749</u>	121,760

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.

Other postemployment benefits		(24,341)
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is reported as an expenditure in the funds when due. In the Statement of Activities, interest expense is recorded as the interest accrues, regardless of when it is due.

730

Change in net assets of governmental activities (Exhibit B) \$ 377,757

GMG COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2011

	<u>School Nutrition</u>
Operating revenue:	
Local sources:	
Charges for services	\$ 118,474
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	68,305
Benefits	29,092
Services	2,522
Supplies	138,420
Depreciation	7,833
Total operating expenses	<u>246,172</u>
Operating (loss)	<u>(127,698)</u>
Non-operating revenues:	
Interest on investments	39
State sources	2,378
Federal sources	<u>111,767</u>
	<u>114,184</u>
Change in fund net assets	(13,514)
Net assets beginning of year	<u>50,859</u>
Net assets end of year	<u>\$ 37,345</u>

GMG COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2011

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of services	\$ 118,474
Cash payments to employees for services	(100,102)
Cash payments to suppliers for goods or services	<u>(116,645)</u>
Net cash (used by) operating activities	<u>(98,273)</u>
Cash flows from non-capital financing activities:	
State grants received	2,378
Federal grants received	<u>91,932</u>
Net cash provided by non-capital financing activities	<u>94,310</u>
Cash flows from investing activities:	
Interest on investments	<u>39</u>
Net increase in cash and cash equivalents	(3,924)
Cash and cash equivalents beginning of year	<u>19,047</u>
Cash and cash equivalents end of year	<u>\$ 15,123</u>
Reconciliation of operating (loss) to net cash (used by) operating activities:	
Operating (loss)	\$ (127,698)
Adjustments to reconcile operating (loss) to net cash (used by) operating activities:	
Depreciation	7,833
Commodities used	19,835
Decrease in inventory	4,462
(Decrease) in accrued salary and benefits	<u>(2,705)</u>
	<u>\$ (98,273)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2011, the District received federal commodities valued at \$19,835.

GMG COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2011

	<u>Agency</u>
Assets	
Cash	\$ 1,452
Land	<u>111,650</u>
Total assets	<u>113,102</u>
Liabilities	
Other payables	<u>113,102</u>
Total liabilities	<u>113,102</u>
Net assets	<u><u>\$ -</u></u>

See notes to financial statements.

GMG COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

GMG Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Garwin and Green Mountain, Iowa, and agricultural area in Marshall and Tama Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, GMG Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. GMG Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Tama and Marshall County Assessor's Conference Boards.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The District has elected to present all funds as major funds for clarity of presentation.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenue not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Student Activity Fund is used to account for extra curricular activities conducted on behalf of the students.

The Management Levy Fund is utilized for the payment of insurance, unemployment and early retirement benefits.

The Capital Projects, Physical Plant and Equipment Levy Fund is utilized to account for the maintenance and equipping of the District's facilities.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The Capital Projects Fund, Statewide Sales, Services and Use Tax is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2010.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment and intangibles are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The District had no intangible assets meeting the threshold limit of \$50,000 approved by the Board of Education. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years. No intangible assets were noted that exceeded the threshold amount.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Intangibles	50,000
Furniture and equipment:	
School Nutrition Fund equipment	2,000
Other furniture and equipment	2,000

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Intangibles	5-10 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year-end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2011.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned - All amounts not included in other spendable classifications.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ending June 30, 2011, expenditures in the support services and other expenditures functions exceeded the budgeted amounts. The District did not exceed its General Fund unspent authorized budget.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$542,682 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk - The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 54,500	-	-	54,500
Construction in progress	3,468,072	-	3,468,072	-
	<u>3,522,572</u>	<u>-</u>	<u>3,468,072</u>	<u>54,500</u>
Capital assets being depreciated:				
Buildings	6,519,514	4,179,630	-	10,699,144
Furniture and equipment	1,357,454	373,262	-	1,730,716
Total capital assets being depreciated	<u>7,876,968</u>	<u>4,552,892</u>	<u>-</u>	<u>12,429,860</u>
Less accumulated depreciation for:				
Buildings	2,912,843	174,583	-	3,087,426
Furniture and equipment	1,041,034	148,652	-	1,189,686
Total accumulated depreciation	<u>3,953,877</u>	<u>323,235</u>	<u>-</u>	<u>4,277,112</u>
Total capital assets being depreciated, net	<u>3,923,091</u>	<u>4,229,657</u>	<u>-</u>	<u>8,152,748</u>
Governmental activities, capital assets, net	<u>\$ 7,445,663</u>	<u>4,229,657</u>	<u>3,468,072</u>	<u>8,207,248</u>
Business type activities:				
Furniture and equipment	\$ 133,185	-	-	133,185
Less accumulated depreciation	99,703	7,833	-	107,536
Business type activities capital assets, net	<u>\$ 33,482</u>	<u>(7,833)</u>	<u>-</u>	<u>25,649</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				<u>\$ 323,235</u>
Business type activities:				
Food service operations				<u>\$ 7,833</u>

(4) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	Balance Beginning Year	Additions	Reductions	Balance End of Year	Due Within One Year
Net OPEB Liability	\$ 24,040	24,341	-	48,381	-
USDA Rural Economic Development Loan	285,000	-	30,000	255,000	30,000
General Obligation Bonds	4,710,000	-	210,000	4,500,000	215,000
Revenue Bonds	1,655,000	-	55,000	1,600,000	60,000
Capital Lease Payable	-	187,989	24,749	173,240	49,498
Total	<u>\$6,674,040</u>	<u>222,330</u>	<u>319,749</u>	<u>6,576,621</u>	<u>354,498</u>

Revenue Bonds Payable

In April, 2009, the District issued revenue bonds for construction. The revenue bond bears no interest for the duration of the repayments. The revenue bonds will be repaid using statewide sales, services and use tax collected in the Capital Projects Fund. Current year collections of \$236,787 are more than sufficient to cover the annual payment of approximately \$140,000. Details of the District June 30, 2011 revenue bond indebtedness are as follows:

Year Ending June 30,	Bond Issue of April 27, 2009			
	Rates	Principal	Interest	Total
2012	3.50%	\$ 60,000	72,220	132,220
2013	3.50	70,000	70,120	140,120
2014	3.50	75,000	67,670	142,670
2015	3.50	75,000	65,045	140,045
2016	3.50	80,000	62,420	142,420
2017-2021	3.20-4.00	420,000	263,875	683,875
2022-2026	4.05-4.35	485,000	160,550	645,550
2027-2029	4.45-4.65	<u>335,000</u>	<u>34,880</u>	<u>369,880</u>
Total		<u>\$1,600,000</u>	<u>796,780</u>	<u>2,396,780</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$1,700,000 bonds issued in April 2009. The bonds were issued for the purpose of financing a portion of the costs of remodeling and addition to the high school building. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2029. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 60 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$2,396,780. For the current year \$55,000 of principal and \$74,145 of the interest was paid on the bonds and total statewide sales, services and use tax revenues were \$236,787.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$144,620 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District has complied with all of the revenue bond provisions during the year ended June 30, 2011.

Capital Lease Payable

The District entered into a capital lease with Apple Financial for the purchase of laptop computers for secondary students. Eight semiannual payments of \$24,749 will be made. The first payment was made on March 25, 2011. This loan is considered to be interest free.

<u>Year Ending June 30,</u>	<u>Principal</u>
2012	\$ 49,498
2013	49,498
2014	49,498
2015	<u>24,746</u>
	<u>\$173,240</u>

General Obligation Bonds Payable

Details of the District's June 30, 2011 general obligation bonded as follows:

<u>Year Ending June 30,</u>	<u>Bond Issue of July 1, 1999</u>			
	<u>Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	3.25%	\$ 215,000	173,003	388,003
2013	3.25	225,000	166,015	391,015
2014	3.25	235,000	158,702	393,702
2015	3.55	245,000	151,065	396,065
2016	3.00	255,000	142,490	397,490
2017-2021	3.20-4.00	1,235,000	584,110	1,819,110
2022-2023	4.05-4.35	1,205,000	359,275	1,564,275
2027-2029	4.45-4.65	<u>885,000</u>	<u>82,550</u>	<u>967,550</u>
Total		<u>\$4,500,000</u>	<u>1,817,210</u>	<u>6,317,210</u>

(5) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$191,402, \$177,403, and \$163,364 respectively, equal to the required contributions for each year.

(6) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$153,840 for year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(7) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects, Statewide Sales, Services and Use Tax	<u>\$192,508</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

The General Fund loaned \$10,000 to the School Nutrition Fund for short term cash flow purposes. The loan was repaid during the current fiscal year.

(9) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 50 active and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which result in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefits plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$25,840
Interest on net OPEB Obligation	600
Adjustment to annual required contribution	<u>(2,099)</u>
Annual OPEB Cost	<u>24,341</u>
Contributions made	<u>-</u>
Increase in net OPEB obligation	<u>24,341</u>
Net OPEB obligation beginning of year	<u>24,040</u>
Net OPEB obligation end of year	<u>\$48,381</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the District contributed \$0 to the medical plan.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$24,040	0.00%	\$24,040
June 30, 2011	\$24,341	0.00%	\$48,381

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$190,618, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$190,618. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,837,000 and the ratio of the UAAL to covered payroll was 6.7%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress presented as Required Supplementary Information, in the section following the Notes to Financial Statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the frozen entry age method was used. The actuarial assumptions include a 2.50% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from 2006 Society of Actuaries study.

(10) USDA Rural Economic Development Loan

The District borrowed \$300,000 through the United States Department of Agriculture (USDA) Rural Economic Development Loan Program. The loan is interest free and requires quarterly payments of \$7,500 each. Payments are to be made from the statewide sales, services and use tax. There is approximately \$60,000 available annually after required payments are made on the District's revenue bonds. The loan will be paid as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>
2012	\$ 30,000
2013	30,000
2014	30,000
2015	30,000
2016	30,000
2017	30,000
2018	30,000
2019	30,000
2020	<u>15,000</u>
	<u>255,000</u>

(11) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	<u>Capital Projects,</u> <u>Physical Plant</u> <u>and Equipment</u> <u>Levy</u>	<u>Special Revenue,</u> <u>Physical Plant</u> <u>and Equipment</u> <u>Levy</u>
Balances June 30, 2010, as previously reported	\$ -	1,548
Change in fund type classification per implementation of GASB Statement No. 54	<u>1,548</u>	<u>(1,548)</u>
Balances July 1, 2010, as restated	<u>\$1,548</u>	<u>-</u>

Required Supplementary Information

GMG COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2011

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
Revenues:						
Local sources	\$ 3,484,002	118,513	3,602,515	3,303,044	3,303,044	299,471
State sources	1,824,322	2,378	1,826,700	2,032,534	2,032,534	(205,834)
Federal sources	225,132	111,767	336,899	228,000	228,000	108,899
Total revenues	<u>5,533,456</u>	<u>232,658</u>	<u>5,766,114</u>	<u>5,563,578</u>	<u>5,563,578</u>	<u>202,536</u>
Expenditures/Expenses:						
Instruction	3,239,205	-	3,239,205	3,560,000	3,560,000	320,795
Support services	1,537,051	-	1,537,051	1,312,525	1,312,525	(224,526)
Non-instructional programs	-	246,172	246,172	250,000	250,000	3,828
Other expenditures	1,455,011	-	1,455,011	1,397,115	1,397,115	(57,896)
Total expenditures/expenses	<u>6,231,267</u>	<u>246,172</u>	<u>6,477,439</u>	<u>6,519,640</u>	<u>6,519,640</u>	<u>42,201</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(697,811)	(13,514)	(711,325)	(956,062)	(956,062)	244,737
Other financing sources (uses)	<u>197,989</u>	<u>-</u>	<u>197,989</u>	<u>-</u>	<u>-</u>	<u>197,989</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing uses	(499,822)	(13,514)	(513,336)	(956,062)	(956,062)	442,726
Balance beginning of year	<u>2,051,941</u>	<u>50,859</u>	<u>2,102,800</u>	<u>2,425,663</u>	<u>2,425,663</u>	<u>(322,863)</u>
Balance end of year	<u>\$ 1,552,119</u>	<u>37,345</u>	<u>1,589,464</u>	<u>1,469,601</u>	<u>1,469,601</u>	<u>119,863</u>

See accompanying independent auditor's report.

GMG COMMUNITY SCHOOL DISTRICT

Note to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2011, expenditures in the support services and other expenditures functions exceeded the budgeted amounts. The District did not exceed the General Fund unspent authorized budget.

GMG COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the
Retiree Health Plan
(In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	Jul 1, 2009	\$0	\$196	\$196	0.0%	\$2,762	7.1%
2011	Jul 1, 2009	\$0	\$191	\$191	0.0%	\$2,837	6.7%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

Other Supplementary Information

GMG COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2011

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Drama	\$ 1,359	1,000	1,483	876
Vocal	1,079	3,779	4,402	456
HS Cheerleading	1,553	3,802	2,293	3,062
Future Teachers	176	-	-	176
Spanish Club	113	30	25	118
Class of 2014	560	532	-	1,092
Class of 2016	-	20	-	20
Class of 2010	-	45	45	-
Class of 2012	1,572	8,870	10,393	49
Class of 2011	1,289	688	1,977	-
Class of 2013	752	1,222	130	1,844
Interest	499	416	599	316
SH Student Council	957	9,459	9,804	612
JH Student Council	939	-	236	703
National Honor Society	841	2,120	2,171	790
Yearbook	(2,903)	15,226	5,577	6,746
Athletics	24,682	48,825	44,067	29,440
Dance Team	10	4,727	3,557	1,180
HS SADD	54	1,281	1,265	70
Volleyball	1,608	1,500	3,108	-
Elementary	4,022	8,204	4,993	7,233
Class of 2015	97	413	-	510
Elementary Student Council	-	90	90	-
Weightlifting	1,795	4,627	5,848	574
JEL	175	350	68	457
Totals	\$ 41,229	117,226	102,131	56,324

See accompanying independent auditor's report.

GMG COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2011

Account	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Kienzle Farm	\$ 113,002	15,289	15,189	113,102

See accompanying independent auditor's report.

CMG COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Ten Years

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
	Modified Accrual Basis									
Revenues:										
Local sources:										
Local tax	\$ 2,049,657	1,976,063	1,980,054	1,896,066	1,921,034	1,714,967	1,716,960	1,639,511	1,639,770	1,507,106
Tuition	1,108,131	978,243	984,434	910,556	823,345	715,953	560,856	514,681	522,976	402,370
Other	326,214	213,196	195,286	227,475	233,166	293,939	159,301	178,438	229,726	233,368
State sources	1,824,322	1,575,487	1,849,877	1,637,262	1,598,542	1,664,396	1,560,545	1,447,237	1,442,940	1,363,095
Federal sources	225,132	336,101	159,081	117,313	116,480	120,997	124,088	126,711	116,125	51,116
Total	\$ 5,533,456	\$ 5,079,090	\$ 5,168,732	\$ 4,788,672	\$ 4,692,567	\$ 4,510,252	\$ 4,121,750	\$ 3,906,578	\$ 3,951,537	\$ 3,557,055
Expenditures:										
Instruction	\$ 3,239,205	3,223,607	3,180,244	2,840,875	2,747,632	2,591,270	2,464,777	2,336,123	2,149,911	2,220,970
Support services:										
Student	43,976	19,623	-	1,432	-	-	-	-	72,896	77,954
Instructional staff	181,067	122,597	121,466	121,705	135,500	105,812	108,056	128,468	108,724	138,324
Administration	526,994	517,862	456,226	462,626	486,484	452,913	426,146	420,295	380,672	375,326
Operation and maintenance										
of plant	528,031	360,622	352,688	313,784	362,544	306,398	304,610	299,448	293,022	334,251
Transportation	256,983	223,895	305,835	224,787	227,957	229,965	183,904	147,865	169,306	118,509
Central support	-	-	-	-	-	-	8,006	11,193	8,739	-
Non-instructional programs:										
Community service operation	-	-	-	1	6,407	2,400	-	-	-	7,798
Other expenditures:										
Facilities acquisition	718,385	3,392,182	528,625	158,653	218,476	515,390	211,660	170,629	163,976	292,499
Debt service:										
Principal	319,749	260,000	2,791,250	209,375	204,375	160,000	150,000	145,000	140,000	130,000
Interest and service charge	263,037	269,497	127,590	134,876	143,208	152,807	161,808	170,408	178,806	186,608
AEA flowthrough	153,840	147,736	121,637	119,335	117,271	114,952	112,048	110,391	113,434	109,865
Total	\$ 6,231,267	\$ 8,537,621	\$ 7,985,561	\$ 4,587,449	\$ 4,649,854	\$ 4,631,907	\$ 4,131,015	\$ 3,939,820	\$ 3,779,486	\$ 3,992,104

See accompanying independent auditor's report.

BRUCE D. FRINK

Certified Public Accountant

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
GMG Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major of GMG Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 10, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered GMG Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of GMG Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GMG Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items I-A-11 and I-B-11 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We noted no items which we consider to be significant deficiencies.

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Compliance and Other Matters

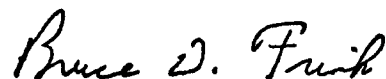
As part of obtaining reasonable assurance about whether GMG Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

GMG Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit GMG Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of GMG Community School District and other parties to whom GMG Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of GMG Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



BRUCE D. FRINK
Certified Public Accountant

February 10, 2012

GMG COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2011

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

I-A-11 Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response accepted.

I-B-11 Auditor Drafting of the Financial Statements and Related Footnote Disclosures - As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. SAS 115, an auditing standard from the American Institute of Certified Public Accountants, requires auditors to communicate this situation as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of the presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size. However, based on this auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the District's management. As in prior years, we have instructed management to review a draft of the auditor prepared financial statements in detail for their accuracy, we have answered any questions they might have, and encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your financial statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation - It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - We feel our review of the draft financials is adequate for us to accept this risk.

Conclusion - Response accepted.

GMG COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2011

Part II: Other Findings Related to Required Statutory Reporting:

II-A-11 Certified Budget - During the year ended June 30, 2011, expenditures in the support services and other expenditures functions exceeded the budgeted amounts. The District did not exceed the General Fund unspent authorized budget.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

II-B-11 Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-C-11 Business Transactions - No Business transactions between the District and District officials or employees were noted.

II-D-11 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-E-11 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-11 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.

II-G-11 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

II-H-11 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.

II-I-11 Certified Enrollment - The number of basic resident students reported to the Iowa Department of Education for October 1, 2010 was overstated by one student. The District's certified enrollment count was overstated due to the inclusion of a student who was included despite never actually physically attending school.

Recommendation = The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

II-J-11 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

GMG COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2011

Part II: Other Findings Related to Required Statutory Reporting:
(continued)

II-K-11 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

II-L-11 Statewide sales, services and use tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$1,140,568
Revenues/transfers in:		
Sales tax revenues	\$ 236,787	
Other local revenues	<u>776</u>	<u>237,563</u>
		1,378,131
Expenditures/transfers out:		
School infrastructure construction	1,056,886	
Transfers to other funds:		
Debt service fund	<u>192,508</u>	<u>1,249,394</u>
Ending balance		\$ <u>128,737</u>

For the year ended June 30, 2011, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Rate of Levy Reduction Per \$1,000 Of Taxable Valuation	Property Tax Dollars Reduced
Debt service levy	\$ <u>1.68</u>	\$ <u>192,508</u>